

Message Text

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72

ACTION EUR-25

INFO OCT-01 IO-14 ISO-00 CU-04 HEW-08 AGR-20 CEA-02

CIAE-00 COME-00 DODE-00 EB-11 FRB-02 H-03 INR-10

INT-08 L-03 LAB-06 NSAE-00 NSC-07 PA-04 RSC-01 AID-20

CIEP-02 SS-20 STR-08 TAR-02 TRSE-00 USIA-15 PRS-01

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FM AMEMBASSY COPENHAGEN

TO SECSTATE WASHDC 9011

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

USMISSION EC BRUSSELS UNN

USMISSION NATO

AMEMBASSY DUBLIN

USMISSION GENEVA

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY OSLO

AMEMBASSY PARIS

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AMEMBASSY STOCKHOLM

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TAGS: EFIN, ETRD, DA, EEC

SUBJ: NEW GOVT TAX MEASURES - PRELIMINARY DETAILS

REF: COPENHAGEN 1367, 1356, 1304 (NOTAL)

BEGIN SUMMARY. PROLONGED EFFORTS BY MINORITY LIBERAL GOVT TO
PRODUCE PARLIAMENTARY MAJORITY FOR RESTRAINT MEASURES TO PROTECT
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DETERIORATING BALANCE OF PAYMENTS FINALLY SUCCEEDED WEDNESDAY

NIGHT MAY 15 WHEN ALL NON-SOCIALIST PARTIES AGREED TO SUPPORT MODIFIED GOVT ECONOMIC PACKAGE. THIS MESSAGE SUMMARIZES REVISED EXCISE TAX MEASURES ADOPTED AND TO BE EFFECTIVE UNTIL END OF 1974 AND GIVES HIGHLIGHTS OF LONGER RANGE BUDGETARY REFORM PROGRAM WHICH IS TO BE LEGISLATED LATER. ANALYSIS OF EFFECTS ON BALANCE OF PAYMENTS IS SEPARATELY REPORTED.
ENDISUMMARY.

1 SERIES OF EXCISE TAX INCREASES EFFECTIVE UNTIL END OF YEAR AMOUNTING TO TOTAL REVENUE ROUGHLY ESTIMATED FROM 1.5 TO 2.5 KRONER ANNUAL BASIS WERE ADOPTED AS FOLLOWS:

(A) 5 ORE (0.8 CENTS) INCREASE PER CIGARETTE AND CORRESPONDING TAX INCREASES FOR OTHER TOBACCO PRODUCTS.

(B) TAX INCREASES OF 5 KRONER (80 CENTS) PER BOTTLE OF HARD LIQUOR, 1.05 TO 1.60 KRONER (17-26 CENTS) PER BOTTLE OF WINE, AND 10 ORE (1.6 CENTS) PER BOTTLE OF BEER.

(C) NEW EXCISE TAX OF 20 PERCENT OF WHOLE-SALE VALUE OF VACUUM CLEANERS, WASHERS, DRYERS, IRONING MACHINES, DISHWASHERS, REFRIGERATORS, FREEZERS, STOVES AND OVENS, GRILLING, COOKING, AND FRYING DEVICES, ELECTRICAL MIXERS, BLENDERS, CUTTERS, MILLS, AND SIMILAR KITCHEN UTENSILS, ELECTRICAL VENTILATORS, ELECTRICAL HAIRDRYERS, AND CURLERS, AND ELECTRIC SHAVERS.

(D) 5 ORE (0.8 CENTS) TAX PER KWH ON ELECTRIC POWER CONSUMPTION BOTH DOMESTIC AND INDUSTRIAL.

(E) 50 PERCENT INCREASE IN ANNUAL LICENSE TAX ON PASSENGER TUMOBILES AND TRUCKS TO 2500 KG, OR UP FROM 475 KRONER (76 DOLLARS) TO 712 KRONER (114 DOLLARS) FOR THE SMALLEST PASSENGER CARS AND UP FROM 1,555 KRONER (249 DOLLARS) TO 2,333 KRONER (373 DOLLARS) FOR CARS WEIGHING BETWEEN 1500 AND 2000 KILOS.

(F) 50 PERCENT INCREASE IN AUTOMOBILE REGISTRATION TAX FOR PASSENGER CARS WHICH UNTIL NOW AVERAGED ABOUT 110 PERCENT OF RETAIL VALUE. EFFECT WILL BE AN INCREASE IN RETAIL PRICE OF CARS OF ABOUT 25 PERCENT. THE CORRESPONDING TAX INCREASE FOR TRUCKS UP TO 4000 KG, WHICH THUS FAR WERE TAXED BY 60 PERCENT, WILL RAISE RETAIL PRICE BY 19 PERCENT. THE INCREASE IN THE CAR REGISTRATION TAX WILL NOT APPLY TO CARS IMPORTED BEFORE MAY 8.

(G) ORIGINALLY PROPOSED INCREASE IN TAX ON RADIO AND TELEVISION AND SIMILAR ELECTRONIC EQUIPMENT WAS NOT RPT NOT CARRIED BECAUSE DOMESTIC UNCLASSIFIED

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INDUSTRY CLAIMED DISASTROUS BUSINESS AND EMPLOYMENT EFFECTS.

2. PARLIAMENT ALSO DECIDED ON REMOVAL BY OCTOBER 1 OF PRESENT 2.5 PERCENT SALES TAX ON REAL ESTATE AND FREEZING OF ASSESSED VALUE OF HOME OWNERSHIP FOR INCOME TAX PURPOSES AT 1973 LEVEL. SOCIAL DEMOCRATIC PROPOSAL TO INTRODUCE CAPITAL GAINS TAX ON SALES OF ONE-FAMILY RESIDENTIAL HOUSING WAS DEFEATED.

3. IN LONGER RANGE MEASURES, NON-SOCIALIST PARTIES AGREED TO SUPPORT GOVT PROGRAM FOR REVISION OF INCOME TAX STRUCTURE FROM JANUARY 1, 1975 TO INTRODUCE FLAT RATE TAXATION FOR INCOMES UP TO 80,000 KRONER (12,800 DOLLARS), ABOLISH SEVERAL TAX EXEMPTIONS AND REPLACE STANDARD EXEMPTIONS BY STANDARD TAX SETOFF. REVISION, IF UNCHANGED, WOULD REDUCE CENTRAL GOVT INCOME TAX REVENUE BY ONE-THIRD OR ABOUT 10 BILLION KRONER (1.6 BILLION DOLLARS), REPRESENTING 17 PERCENT OF TOTAL INCOME TAX BURDEN INCLUDING LOCAL TAXES.

4. LOSS OF REVENUE IS TO BE COMPENSATED PARTLY BY INCREASE OF VALUE-ADDED TAX (VAT) FROM 15 TO 20 PERCENT, PROVIDING ABOUT 5 BILLION KRONER ADDITIONAL REVENUE, AND PARTLY BY BUDGETARY CUTS, INCLUDING HITHERTO SACROSANCT AREAS OF HEALTH, EDUCATION AND WELFARE. TOTAL 5 BILLION KRONER BUDGET REDUCTION FROM FY 1975/76 MUST BE NEGOTIATED BUT DRAFT PROGRAM INCLUDES REDUCED PUBLIC CONSTRUCTION PROGRAMS AT BOTH NATIONAL AND LOCAL LEVELS, CUTS IN OVERALL ADMINISTRATIVE EXPENDITURES INCLUDING STRINGENT PERSONNEL CEILINGS AT BOTH NATIONAL AND LOCAL LEVELS, REDUCED BUDGETARY RESERVES FOR NEW LEGISLATION, INTRODUCTION OF PATIENT CHARGES IN NATIONAL UNIVERSITY HOSPITAL AND FOR MEDICAL SERVICES BY GENERAL PRACTITIONERS, CURTAILMENT OF STUDENT GRANTS AND INTRODUCTION OF STRICTER ENTRANCE REQUIREMENTS AT UNIVERSITIES, INTRODUCTION OF USER CHARGES FOR EVENING SCHOOLS AND PUBLIC LIBRARIES, POSTPONEMENT FOR 5 YEARS OF PLANNED SUPPLEMENTARY SOCIAL SECURITY PROGRAM, ABOLITION OF FAMILY ALLOWANCES FOR CHILDREN AGED 16-17 YEARS AND SUBJECTING OF FAMILY ALLOWANCES IN GENERAL TO INCOME TAXATION, ABOLITION OF RECENTLY INTRODUCED MILK SUBSIDY, AND INTRODUCTION OF PREMIUM PAY FOR VOLUNTARILY DELAYED COLLECTION OF SOCIAL SECURITY.

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